

2009 Annual Report



SPECIAL POINTS OF INTEREST:

**Highlights
from the June
2009 training**

**Performance
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A message from State Auditor Tom Salmon, CPA

Dear Vermonter,

I am pleased to provide you with a report on the recent activities of the Auditor's Office. Much has changed with this office and the fiscal condition of the state in the past two years. As before, our collective fiscal challenges are great, but so is our potential to address them in ways that don't burden taxpayers and future generations.

The global recession that began in November 2007 and which continues to this day, has impacted Vermont's businesses, citizens, and public entities a great deal. The state has lost thousands of jobs and millions in revenue while social service caseloads and long-term retirement and healthcare liabilities have increased.

It's now more important than ever for budget-writers to understand which state programs work well, which need help, and which are dysfunctional or no longer needed. My office has begun a long-term effort focusing on the need for a program or department to have clear goals, reliable performance measures, tracking of actual results, and accurate reports to customers and the public. In this way, scarce public resources can be allocated properly.

We have successfully restructured the Auditor's Office to conduct more performance audits of state programs and new audits required by the Legislature of key programs such as our statewide sexual abuse response system, tax increment financing districts, and others. Performance audits are somewhat new to state government, but they can identify ways to improve efficiency, deliver better services, and save dollars.

My aim has been to remain fair, impartial and objective while raising the productivity of my office - conducting statutory audits, performance reviews of programs, and handling special inquiries from citizens and legislators. Your comments and suggestions are always welcome and help guide our direction.

Since returning from Iraq last March, I have paid more attention to our long-term financial challenges, such as the growing liability for state employee and teacher healthcare costs during retirement, and the need to rethink our state's way of creating the state budget.

On June 8, I testified to the Joint Legislative Government Accountability Committee concerning the value of performance measurement audits as a management tool.

I believe that working together we can identify, study, discuss and ultimately solve our fiscal challenges in a way that is open, responsible, sustainable and fair.

I look forward to continuing my service with full commitment to our state's financial stability and I'm proud to have a great staff working on behalf of the state taxpayers and citizens. Please feel free to call me anytime with your suggestions or concerns.

Sincerely,

Thomas M. Salmon CPA

Thomas M. Salmon, CPA
Vermont State Auditor



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*From State Street
to Main Street
to School Street*

We're on the Web
auditor.vermont.gov

VLCT/Auditor's Office Training

This year's Governmental Accounting and Auditing Symposium was held June 24 at the Capitol Plaza Hotel and Conference Center in downtown Montpelier.

Jointly sponsored by the Auditor's Office and Vermont League of Towns, the day began with welcom-

ing remarks from William Hall, chief financial officer of VLCT, Auditor Tom Salmon, Gov. James Douglas as well as representatives from the Vermont Government Finance Officers Association, the Vermont Municipal Clerks' and Treasurers' Association.

Approximately 175 people attended the conference and gave glowing evaluations on its content.

The symposium was sanctioned by the National Association of State Boards of Accountancy and offered 6 CPE credits.



Auditor Salmon leads a discussion group at a training session held for municipal officials.

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Save the date! Tuesday, June 22, 2010

The Governmental Accounting and Auditing Symposium presented annually by the Auditor's Office and the Vermont League of Cities and Towns will be held Tuesday, June 22, 2010, at the Capitol Plaza in downtown Montpelier.

Links to our recent reports

Report Date	Title	Link to report
9/14/09	Department of Economic Development and Vermont Economic Progress Council Performance Measurement Report	http://auditor.vermont.gov/uploads/1253012052.pdf
7/22/09	Department of Motor Vehicles Performance Measurement Report	http://auditor.vermont.gov/uploads/1248286557.pdf
6/29/09	Department of Buildings and General Services Performance Measurement Report	http://auditor.vermont.gov/uploads/1246903794.pdf
1/16/09	Litigation Report for Calendar Year 2008 (required by Act 80, Section 22a)	http://auditor.vermont.gov/uploads/1232116247.pdf
12/23/08	FY 2008 Single Audit — State of Vermont Auditors' Report as Required by OMB Circular A-133 and Related Information	http://auditor.vermont.gov/uploads/1237913828.pdf
12/23/08	Comprehensive Annual Financial Report FY 08	http://auditor.vermont.gov/uploads/1230665668.pdf
12/23/08	Financial Statement Management Letter FY 08	http://auditor.vermont.gov/uploads/1251734584.pdf
12/5/08	Agency of Transportation Rail Report	http://auditor.vermont.gov/uploads/1228481294.pdf
10/22/08	Orange County — Results of a review of internal controls over the disbursements process and related policies and procedures	http://auditor.vermont.gov/uploads/1224690267.pdf
9/8/08	Internal Controls — Results of review at the Agency of Administration	http://auditor.vermont.gov/uploads/1220985359.pdf
6/18/08	Internal Controls — Results of review at the Agency of Human Services	http://auditor.vermont.gov/uploads/1216059984.pdf
6/12/08	Vermont Employment Growth Incentive — Compliance Audit pursuant to 32 VSA §163(10)	http://auditor.vermont.gov/uploads/1213298995.pdf
6/5/08	Internal Controls — Results of review at the Department of Education	http://auditor.vermont.gov/uploads/1213299444.pdf
4/2/08	Internal Controls — Results of review at the Agency of Natural Resources	http://auditor.vermont.gov/uploads/1210619540.pdf
4/2008	Vermont Sheriffs' Departments Uniform Accounting Manual	http://auditor.vermont.gov/uploads/1209047719.pdf
3/31/08	Internal Controls — Results of review at the Department of Public Safety	http://auditor.vermont.gov/uploads/1210619497.pdf
3/31/08	FY 2007 Internal Controls over Financial Reporting and on Compliance with Laws and Regulations for fiscal Year 2007	http://auditor.vermont.gov/uploads/1207051957.pdf
3/27/08	Internal Controls — Results of review at the Office of the State Treasurer	http://auditor.vermont.gov/uploads/1210619616.pdf
1/2008	State Auditor's Office 2007 Year-End Report	

Performance measurement: Essential for good government in tough economic times

**By Tom Salmon
Vermont State Auditor**

Auditors are talking about “performance measurement” more than ever these days. As government revenues fall, and needs increase, performance measurement is gaining popularity as a tool to understand what works in government, and what does not.

A good performance measurement system typically has three main components:

1. Do you have performance goals in place that are in line with your mission?
2. Are you tracking actual results?
3. Are you reporting these results, comparing them to the goals, and using them to improve performance?

Common sense says that if a government office has clear goals, is regularly measuring its results and evaluating the efficiency of its ser-

vices it will be much more able to correct problems early, serve customers better, and use precious tax dollars more wisely.

Fifteen years ago, the Vermont Legislature revised its budget process to require state agencies and departments to submit performance information with their annual budget requests -- including a statement of mission and goals, a description of indicators

used to measure output and outcomes, and a description of the means and strategies for meeting key goals.

This year we conducted several performance measurement audits to see how well the following agencies and divisions were using basic performance measurement tools in their operations and if their budget requests included relevant performance information:

- ◆ Department of Economic Development and the Vermont Economic Progress Council
- ◆ Department of Motor Vehicles
- ◆ Department of Buildings and General Services

These audit reports as well as all other audit reports are available in full text at our website: www.auditor.vermont.gov

On the next page, you'll see the 21 practices we used to evaluate the performance measurement systems of audited departments.



Rebecca Knutson of Barre uses an automated kiosk at the Department of Motor Vehicles in Montpelier.

See Page 5 for
the “21 Best
Practices” we used
to evaluate
performance
measurement
systems of audited
departments.

21 Best Practices for Performance Measurement

In our audit of selected state agencies and departments, we developed a list of 21 suggested “Best Practices” for government agencies seeking to improve their performance measurement systems. Please feel free to share this checklist with public managers in your town.

General Standard 1: Goals and Measures Are in Place

1. The operating organization has goals and measures that gauge the effectiveness and efficiency of major programs and operations. Best practices include:

2. The organization has established one or more goals that describe what it is trying to achieve.
 3. The organization’s goals and major programs and operations are aligned.
 4. The organization’s goals were developed through a strategic planning process that resulted in a written plan.
 5. The organization’s current goals are consistent with those in its strategic plan.
 6. All goals have one or more relevant measures.
 7. The organization has a mix of measures, such as outcome, intermediate outcome, output, and efficiency measures that demonstrate progress towards intended results and the economic use of resources.
- The organization’s measures are quantified or quantifiable.

General Standard 2: Actual Results Are Tracked

8. The organization tracks actual results against performance targets and validates the reliability of such data. Best practices include:

9. Suitable numerical targets are established for every measure at least annually.
 10. The organization tracks actual results for each measure.
 11. The organization compares actual results to targets on at least an annual basis.
 12. The organization has identified the methods and sources for the collection of actual results, including relevant limitations.
 13. The organization has documentation that supports its actual results.
- The organization has processes to validate that actual performance results are accurate and reliable.

General Standard 3: Results Are Reported

14. The organization is regularly reporting performance measurement data for each of its goals [to a Select Board, School Board, or other public oversight body, citizen group, etc.]. Best practices include:

15. As part of performance reports the organization includes one or more goals related to its major programs or operations.
16. As part of performance reports the organization includes a description of the strategies that it will be pursuing to meet its goals.
17. As part of performance reports the organization includes measures that are linked to reported goals.
18. As part of performance reports the organization includes a variety of measure types, such as outcome, intermediate outcome, output, and efficiency measures.
19. The goals and measures reported are generally consistent from year to year.
20. As part of performance reports the organization includes future targets for each reported measure.
21. As part of performance reports the organization includes a comparison of its prior years’ numerical targets to its actual results for each reported measure.

As part of performance reports the organization incorporates a narrative explanation of its results, including, when applicable, (1) an analysis of why a target was not met and corrective actions being taken and (2) relevant data limitations.

Railroad contracts could be managed better

Our office found last year that oversight of railroad construction contracts by the Vermont Agency of Transportation (AOT) is inadequate and is costing the state.



Rail contractors often store state-purchased material in unsecured locations.

AOT's rail program oversees 427 miles of the approximately 748 miles of track or rail right-of-way in Vermont. Of the state's 427 miles, about 300 are currently active.

Ten railroad companies operate or have the rights to operate on the rail lines in Vermont.

For Fiscal Year 2009, the AOT total budget was \$412.2 million. The Rail Section was allocated \$16.8 million of this budget. The Rail Section currently has eight staff positions out of approximately 1,050 positions in the Agency.

"The Rail Division was not ensuring that the required competitive bidding in these contracts is taking place," said State Auditor Tom Salmon. "Contracts were being 'sole-sourced' and this denied other companies the opportunity to compete for State contracts, and may be keeping the State from getting the best price for goods and services."

The audit report noted three key findings:

1. VTrans and its railroad subcontractors did not follow pro-

curement regulations designed to foster open, competitive bidding, resulting in \$7.2 million of recent contracts with Vermont Railway and one of its affiliates not being competitively bid. The largest no-bid contract – for \$4,677,727 – was also issued without the required approval of the Secretary of the Agency of Administration.

2. Oversight and administration of rail contracts need improvement. For example, auditors found that \$82,401 from rail project salvage proceeds was being held by Vermont Railway to offset against future invoices rather than being returned to the State as required by contract. (The Agency has since discontinued the practice of allowing the netting of salvage credits and has adopted new procedures to promptly receive and account for salvage payments.)

3. Lease revenues and agreed-to performance requirements of leaseholders are not being verified, and AOT has foregone \$37,000 in interest stemming from late payments of monthly leases for State-owned track.

Auditors recommended that AOT strengthen and clarify the language within its rail agreements, improve the oversight of contracts, enforce penalties for violations of the terms and conditions of its contracts and lease agreements, and provide for better fiscal management of its contractors and service providers.

In its response to the report, the Agency of Transportation generally agreed with the report's recommendations and pledged to provide the State Auditor with quarterly status reports on corrective actions which it has done to date.

Ten railroad companies operate — or have the rights to operate — on the rail lines in Vermont.

Orange County Audit

Last fall we looked at the business operations of Orange County which operates the county courthouse under the direction of two elected Assistant Judges. We found that finances at the Orange County Courthouse were not being handled in a fiscally responsible manner, and poor management by the County's elected Assistant Judges contributed to problems.

The audit initially targeted payroll procedures due to citizen concerns about possible improprieties, but was broadened to include a range of internal controls and financial procedures and transactions.

"Staff auditors found a number of financial errors, poor procedures and controls, missing documentation and weak record-keeping," said State Auditor Tom Salmon, "but they did not find evidence of any misappropriation of assets." Questioned costs on a number of matters totaled \$7,337, some of which has already been paid back to the County.

Our 32-page audit report noted that many problems stem from the fact that the County has not established adequate accounting and personnel policies and procedures, and that there is a lack of segregation of duties and insufficient review of County disbursements. (Segregation of duties is the division of key duties and responsibilities among different staff to reduce the risk of errors and fraud.)

Auditors noted, among other findings:

- Some employees earned benefits which were not accounted for sufficiently;
- One employee was paid for 80 hours in a pay period but only had 59 hours marked on the time sheet;
- The County did not make timely deposits of federal income taxes;
- The County incorrectly calculated accrued vacation and sick time for employees;
- The County Clerk is not authorized under State law to sign checks, but signed about 25 percent of checks tested;
- The County maintains five bank accounts and account reconciliations were often performed late;
- County officers were not complying with several state statutes.

In their response to the audit, the Assistant Judges expressed general agreement with the findings; they noted they have already improved procedures related to reporting State funds, and promised to quickly implement fiscal management procedures to address the report's recommendations.

Judges expressed general agreement with the findings; they noted they have already improved procedures related to reporting State funds, and promised to quickly implement fiscal management procedures to address the report's recommendations.

A Nov. 12, 2009, follow-up visit by our office found that the County had substantially addressed all of the recommendations in the audit and had policies, procedures and controls in place.



Orange County Courthouse in Chelsea.

Vermont Employment Growth Incentive Program

At the Legislature's request we audited a new economic development program last year – the Vermont Employment Growth Incentive – and found that several policy changes to the program could save the state significant funds.

The program began in January 2007 and the Vermont Economic Progress Council (VEPC) authorized \$9.7 million in incentives to 13 companies in the first year. Incentive authorizations ranged from \$71,302 to \$1.9 million; the average was about \$750,000. If the companies meet their job creation, payroll and investment targets for the previous calendar year, they receive a cash award from the Dept. of Taxes that is paid out in installments over 5 years.

The 13 companies were projected, over the next 6 years, to create 1,310 qualifying jobs, \$60 million in total new qualifying payroll, and to make \$116 million worth of new capital investments.

The report found the program in substantial compliance with rules and regulations, but noted that policies affecting how awards are calculated may result in the state subsidizing some economic activity that would normally occur at a company.

"It's not a good use of scarce state funds to subsidize growth that is likely to happen anyway," State Auditor Tom Salmon added. The report recommended that the Council change its policy so that it can use a company's own growth rate – rather than the "industry sector" growth rate which includes similar companies – in its incentive award calculations.

"The current approach to evaluating a proposed development is to exclude the normal business growth of a company from the award calculations because the purpose of the program is to encourage economic activity that is above and beyond the growth pattern in an industry sector," Salmon said.

Salmon noted that using the "industry sector" growth rate, instead of a company's own historical growth rate in the calculations, is an approach that has been approved by the Legislature's Joint Fiscal Committee. "However, the 'industry sector' approach is costing us money," he said.

"We could save money by doing more to ensure we are subsidizing only 'stretch goals' – the jobs and investments that are above a company's normal growth trends.

"We could save money by doing more to ensure we are subsidizing only 'stretch goals' – the jobs and investments that are above a company's normal growth trends.

"In one company, the payroll to be subsidized over the award period was a total of \$819,148 using the industry growth rate, but only \$56,138 using the applicant's own growth rate," the Auditor said.

In another award, the projected payroll that qualified for an incentive over the award period was a total of \$12 million using the industry average growth rate, but just \$1.5 million using the company's own growth rate," Auditor Salmon said. The Auditor estimated that if historical growth rates were used in these two applications, the incentive authorizations could have been reduced by approximately \$1.2 million. (The \$1.2 million figure is a post-audit estimate only and was not included in the audit report itself.)

The report also found that the state's consultants operating the cost-benefit model for the Council used an outdated industry classification code in calculating one company's award. Using the wrong code resulted in employing a 1.6 percent growth rate in the award calculations, rather than the correct industry classification code which had a growth rate of 4.2 percent. The effect of this error was to award \$484,000 in additional incentives over what would have been awarded had the correct industry code been used.

Upcoming Audits and Reports

Education Shared Services	Fall 2009
Potential Improper Payments	Fall 2009
Financial Statement Audit	December 09
Federal Single Audit	December 09
Sexual Offenders Registry	Winter 2010
Economic Growth Incentive Program	Summer 2010